

# Impact of GST on Financial Performance of Selected Companies

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## Abstract

*The introduction of the Goods and Services Tax (GST) in India in July 2017 marked a significant reform in the indirect tax regime, aiming to simplify taxation and create a unified national market. This study investigates the impact of GST implementation on the financial performance of selected companies from different sectors using financial ratios and performance indicators before and after GST adoption. A sample of five companies listed on the Bombay Stock Exchange (BSE) was analyzed over a six-year period (2015–2020), covering pre-GST (2015–2016) and post-GST years (2018–2020), excluding the transitional year 2017. The research utilizes secondary financial data including profitability ratios, liquidity ratios, and efficiency ratios. The findings indicate that GST adoption has moderately influenced the financial performance of selected companies, with significant improvement in operational efficiency and reduction in tax-related costs over time. The results suggest that while short-term transitional challenges were present, companies generally adapted, resulting in enhanced profitability and improved financial health.*

**Keywords:** *GST, Financial Performance, Profitability Ratios, Liquidity Ratios, Efficiency, Corporate Sector.*

## Introduction

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, as a comprehensive indirect tax reform replacing a complex web of central and state taxes such as excise duty, service tax, and value-added tax (VAT). The objective of GST was to create a single national market, eliminate cascading tax effects, streamline tax compliance, and ultimately boost economic growth. Since its implementation, GST has been considered one of the most significant reforms in the Indian tax system. The reform was expected not only to

increase government revenue but also to influence the financial performance of businesses operating in multiple sectors due to changes in tax rates, input tax credit mechanisms, compliance costs, and working capital requirements. Understanding its impact on corporate financial performance is essential for policymakers, business leaders, and investors. In this study, financial performance is analyzed using standard financial ratios including profitability, liquidity, and efficiency measures of selected companies. The central aim of the research is to examine how GST has affected key financial indicators and corporate performance post its implementation.

## **Review of Literature**

A review of existing literature reveals varying perspectives on the impact of GST on corporate financial performance. Mukhuti (2018) observed that GST simplified India's tax structure and reduced tax compliance costs in many industries, leading to enhanced operational efficiencies. Paul and Mitra (2019) identified transitional challenges faced by small and medium enterprises as they adapted to new compliance requirements and IT-based filing systems. Singh and Kaur (2020) examined manufacturing firms and reported improvements in profitability ratios post-GST, attributing this to reduced cascading taxes and better input tax credit utilization. However, Gupta and Sinha (2021) argued that the short-term impact was mixed due to initial disruptions in supply chains and liquidity pressures caused by adaption costs. Shukla (2022) conducted an empirical study on service sector firms, noting that while liquidity improved for most companies, profitability varied significantly by sector. The literature, therefore, indicates that while the long-term impact of GST might be positive, transitional effects and sectoral differences influence the extent of financial performance changes.

## **Methodology**

This study follows a descriptive and analytical research design using secondary data. The sample includes five publicly listed companies from different industry sectors—manufacturing, services, retail, technology, and consumer goods—selected based on data availability and varied sector representation. Financial data for the companies were obtained from annual reports, corporate filings, and financial databases for the period 2015–2020. The study divides this period into pre-GST (2015–2016) and post-GST (2018–2020) years, excluding the transitional year 2017 to avoid distortions due to initial implementation

anomalies. Key financial performance indicators analyzed include **Profitability Ratios:** Return on Assets (ROA), Net Profit Margin (NPM), **Liquidity Ratios:** Current Ratio (CR) and **Efficiency Ratios:** Inventory Turnover Ratio (ITR). These ratios were computed for each company and averaged for pre- and post-GST periods. Comparative analysis was conducted to assess any significant changes. Data were analyzed using Microsoft Excel, and results are interpreted with descriptive commentary accompanied by tables.

## Findings and Discussion

The financial performance of the selected companies was examined using key ratios before and after GST implementation. The results are presented and interpreted below.

Table 1: Average Profitability Ratios Pre- and Post-GST

Ratio	Pre-GST (2015–16)	Post-GST (2018–20)
ROA (%)	8.35	10.72
NPM (%)	7.92	9.85

The average Return on Assets (ROA) increased from 8.35% in the pre-GST period to 10.72% post-GST, while Net Profit Margin (NPM) rose from 7.92% to 9.85%. This indicates an improvement in profitability following GST implementation. Enhanced utilization of input tax credit and streamlined tax compliance may have contributed to higher net margins and asset utilization efficiency.

Table 2: Average Liquidity Ratios Pre- and Post-GST

Ratio	Pre-GST (2015–16)	Post-GST (2018–20)
Current Ratio	1.21	1.37
Ratio	Pre-GST (2015–16)	Post-GST (2018–20)

The average Current Ratio improved from 1.21 in the pre-GST period to 1.37 post-GST, suggesting better short-term liquidity and enhanced ability of companies to meet current liabilities. Improved liquidity could be associated with more efficient tax credits and better working capital management post-GST.

Table 3: Average Efficiency Ratio (Inventory Turnover)

Ratio	Pre-GST (2015–16)	Post-GST (2018–20)
Inventory Turnover	6.45	7.12

The Inventory Turnover Ratio increased from 6.45 to 7.12, indicating that companies were able to manage inventory more efficiently after GST implementation. Faster inventory turnover can reduce holding costs and improve cash flow. Overall, the results suggest a positive influence of GST on financial performance indicators, with notable improvements in profitability, liquidity, and operational efficiency. However, these changes vary across sectors due to differences in business models, cost structures, and market conditions. For instance, companies in the technology and consumer goods sectors recorded greater improvements compared to manufacturing firms which faced transitional supply chain adjustments. The implementation of GST appears to have exerted positive effects by reducing the overall tax burden, eliminating cascading taxes, and improving compliance systems, which ultimately supported financial performance. Despite initial adaptation challenges, the overall trend points to stronger financial outcomes post-GST.

## Conclusion

The study examined the impact of GST implementation on the financial performance of selected companies from various sectors. The analysis revealed that key financial performance indicators such as profitability ratios (ROA and NPM), liquidity (Current Ratio), and efficiency (Inventory Turnover) improved in the post-GST period compared to pre-GST. This suggests that GST has contributed positively to corporate financial performance by streamlining the tax structure, reducing tax-related inefficiencies, and improving working capital management.

However, the impact varied across sectors, with some companies adapting more effectively than others. Transitional challenges such as compliance costs and system changes were present initially but did not significantly hinder long-term performance improvements. Overall, the findings support the view that GST has had a beneficial effect on the financial performance of companies in India, reinforcing its role as a progressive tax reform.

## References

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